

Minneapolis Community Development Agency

Request for City Council Action

Date: August 26, 2002

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by George Kissinger, Senior Project Coordinator, Phone 612-673-5014

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: Informational Status Report, Brookfield Saks Lease

Previous Directives: June 7, 2002 City Council action to reject Brookfield settlement offer of May 6, 2002 regarding Saks Parcel with intent and effect of allowing Brookfield ground lease to expire on termination date of June 15, 2002.

Ward: 7

Neighborhood Group Notification: N/A

Consistency with *Building a City That Works*: N/A

Comprehensive Plan Compliance: N/A

Zoning Code Compliance: N/A

Impact on MCDA Budget: Appropriation approved to provide for the collection of rental income and pay property management expenses.

Living Wage / Business Subsidy: N/A

Job Linkage: N/A

Affirmative Action Compliance: N/A

Recommendation: Receive and File this informational status report.

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Equal Housing and Employment Opportunities

The following is essentially the information provided at the last informational report presentation before your committees, August 12th and August 19th (Community Development and Ways and Means/Budget).

Brookfield is collecting and holding rents (including the Saks base monthly rent of \$16,667). Prior to expiration of the ground lease the Saks base rent had been forwarded to the MCDA by Brookfield under terms of the ground lease. Brookfield has not surrendered possession and continues to hold over as tenant after expiration of the ground lease.

Brookfield is claiming that their interest in the Saks Parcel is a mortgage interest, not a lease, and therefore they are not subject to eviction. They claim that they are subject to a mortgage that must be foreclosed. Brookfield acknowledges that they can be foreclosed and there is no question that the MCDA, as owner, can ultimately take possession. It is the nature of their interest that is in dispute and there will be a hearing in District Court on this matter on September 12th.

Brookfield Investments, Inc. initiated the first step in a foreclosure of their mortgage against Brookfield Market Inc. on the adjoining North Parcel by issuing a notice of default on the first mortgage. The MCDA holds a second mortgage on this property as security for a \$7.5 million loan made in 1987. With accrued interest, the amount due and owing the MCDA on this loan is just under \$17.5 million. That amount is due in full this coming September 30th. The amount of the first mortgage (approximately \$44 million) substantially exceeds the value of the property (appraised at \$10.1 million) so the MCDA will see no proceeds from this pending foreclosure.

Concurrently, Brookfield has indicated a desire to settle the Saks/North Parcel defaults and has approached the MCDA with a series of ideas suggesting possible avenues of settlement. While there is no further formal offer by Brookfield at this time, the MCDA is exploring such possibility.

This report was prepared by George Kissinger. For more information, please call 612-673-5014.